

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Carrier Oversight and Programs Branch**

**RESOLUTION T-17531
December 15, 2016**

R E S O L U T I O N

Resolution T-17531. This Resolution performs a true-up adjustment of Kerman Telephone Company's interim rate relief, and orders the company to refund \$561,573.78 to the California High Cost Fund-A, in compliance with Decisions 16-02-022 and 16-06-053.

By Advice Letter 407, filed on August 1, 2016.

Summary

This Resolution resolves Kerman Telephone Company's Advice Letter 407. We order Kerman Telephone Company to refund \$561,573.78 to the California High Cost Fund – A. Kerman Telephone Company shall make this payment in one lump-sum within 45 days from the effective date of this Resolution.

Background

Kerman Telephone Company (Kerman) owns and operates a telephone system that provides local exchange telephone service to approximately 4,900 customers in the City of Kerman and in surrounding unincorporated areas of Fresno County. Kerman is eligible for California High Cost Fund-A (CHCF-A) support pursuant to Public Utilities (PU) Code § 275.6.

On December 28, 2011, Kerman filed a General Rate Case (GRC) Application (A.) 11-12-011, seeking new rates.

On January 29, 2016, Kerman filed a Motion for Interim Rate Relief (Motion) due to delay in the processing of its GRC Application. In the Motion, Kerman requested an interim rate relief in the amount of \$1,112,373.

On February 26, 2016, the Commission issued D.16-02-022 granting Kerman's Motion. The Commission approved Kerman's requested amount of \$1,112,373, to be divided into 12 monthly payments from the CHCF-A, but held that the interim rate relief was subject to true-up and possible refund to the CHCF-A, after permanent rates were adopted for Test Year 2016.¹

On June 23, 2016, the Commission issued D.16-06-053 and adopted permanent rates for Kerman's Test Year 2016. The Commission ordered Kerman to file a Tier 3 Advice Letter (AL) to true-up the difference between its interim rates and newly adopted rates.

On July 29, 2016, Kerman filed Tier 3 AL 407, as directed by D.16-06-053 and D.16-02-022 to true-up rates.

Discussion

In D.16-02-022, the Commission held that interim rate relief granted to Kerman was subject to a future true-up and possible refund. If Kerman's final CHCF-A draw is less than the interim draw, the Commission held that Kerman should return the difference to the CHCF-A.² In addition, in Ordering Paragraph (OP) 4, the Commission held that:

The payments to Kerman Telephone Co. (Kerman) authorized by this decision shall be subject to true-up and possible refund. The refund, if any, shall be a one-time lump sum payment from Kerman to the California High Cost-Fund A (CHCF-A) fund with interest calculated using the 3-month commercial paper rate from the date of the payment by the CD. The lump sum refund, including interest, shall be paid by Kerman within 45 days from the effective date of the final order in this application. On the other hand, if the ultimate draw at the conclusion of the proceeding is larger than the interim draw, additional CHCF-A shall be available to make up the difference back to February 1, 2016.

In D.16-06-053, OP 2, the Commission reaffirmed its D.16-02-022, OP 4, stating that Kerman must true-up the interim rates with adopted rates as follows:

¹ D.16-02-022, p.3.

² *Id.*

“Kerman Telephone Company shall file a Tier 3 Advice Letter to true-up the difference between interim rates, including 2016 California High Cost Fund-A support and interim rate relief, for the period January 1, 2016 to the implementation date of the rates adopted in this order, in compliance with General Order 96-B, Industry Rule 7.3(5) (an update by a GRC-LEC regarding its allocation from the high cost fund.) ”

Kerman’s True-up Calculations:

Based on its calculation, Kerman states that it owes the CHCF-A Fund \$13,935. Kerman’s calculation, as illustrated in Attachment 1, Line 10, uses a methodology that compares the six-month (February 2016 through July 2016) period during which the CHCF-A provided interim rate relief against the differential between GRC-adopted and previously approved program support, plus GRC-adopted local service rate increases. Attachment 2 explains the steps taken by Kerman to arrive at the \$13,935 calculation.

Communications Division’s (CD) Analysis of Kerman’s True-up Calculations:

In D.16-02-022, the Commission calculated the interim rate relief amount of \$1,112,373 by subtracting Kerman’s 2008 operating revenue of \$8,801,394, adopted in Resolution T-17081, from Kerman’s proposed 2016 operating revenue of \$9,913,767 ($\$9,913,767 - \$8,801,394 = \$1,112,373$). Operating revenue includes: 1) local network services; 2) local service – CHCF-A; 3) interstate USF; 4) intrastate network access services; 5) miscellaneous; and 6) less: uncollectible revenue.

However, Kerman’s true-up calculations in AL 407 deviates from the methodology comparing respective 2008 and proposed 2016 operating revenues used in D.16-02-022:

1. Kerman excluded local network services, interstate USF, intrastate network access services, miscellaneous and uncollectible revenue in its true-up calculations.
2. Kerman isolated and compared only the CHCF-A support that the Commission adopted for Test Year 2016 to the CHCF-A support that was adopted for Calendar Year 2016, instead of including the entire operating revenue adopted for 2016 against the interim operating revenues adopted in D.16-02-022; and

3. Kerman included Access Recovery Charge (ARC) revenue in its true-up calculations even though the ARC was not included in the calculation of the interim rate relief in D.16-02-022, and is therefore not appropriate to be included here.

CD rejects Kerman's true-up calculations because it is inconsistent with D.16-02-022.

Although the ARC is not appropriately included in the true-up calculation, we have not addressed the merits of the request for ARC recovery. Should Kerman desire to recover this revenue, it should file a separate AL seeking determination of this issue.

CD's True-up Calculations:

In accordance with D. 16-02-022, CD's true-up calculations compare Test Year 2016 total operating revenue adopted in D.16-06-053 and Test Year 2008 total operating revenue adopted in Resolution T-17081. Table 1 below shows that Kerman's adopted 2016 operating revenue is \$6,304 less than the amount adopted for 2008. Because there is no positive revenue requirement differential between the Test Year 2008 and 2016 revenue requirements, the full amount of interim rate relief is subject to refund by to the CHCF-A fund. Kerman must therefore refund the interim rate relief received, plus interest, to the CHCF-A as directed by D.16-02-022 and D.16-06-053.

Table 1		
Kerman Telephone Company		
Interim Rate Relief True-up Calculation		
Authorized	Test Year	Total Operating Revenue
D.16-06-053	2016	\$ 8,795,090
Res. T-17081	2008	\$ 8,801,394
Increase/Decrease		\$ (6,304)

Table 2 below shows the calculated amounts that Kerman received in interim rate relief from CHCF-A from March 31 to August 1, 2016. The amounts include interest, which is based on the 3-month commercial paper rate, in compliance with D.16-02-022 and D.16-06-053. The total amount Kerman should refund the CHCF-A program is \$561,573.78.

Table 2						
Calculation of Interim Rate Relief plus Interest Kerman owes CHCF-A						
Interim Rate Relief Decision 16-02-022:			\$ 1,112,373.00			
Implementation date for Test Year 2016 Rates:			8/1/2016			
		A	B	C	D	E
		Date Kerman Received Interim Rate Relief	Monthly Interim Rate Relief Payments	Financial Commercial Paper 3-Month Rate	Days to 8/1/2016	Interest
	February Payment	3/31/2016	\$ 92,697.75	0.54%	123	\$ 2,052.33
	March Payment	4/27/2016	\$ 92,697.75	0.55%	96	\$ 1,631.48
	April Payment	6/23/2016	\$ 92,697.75	0.55%	39	\$ 662.79
	May Payment	6/28/2016	\$ 92,697.75	0.57%	34	\$ 598.83
	June Payment	7/8/2016	\$ 92,697.75	0.55%	24	\$ 407.87
	July Payment	7/30/2016	\$ 92,697.75	0.55%	2	\$ 33.99
			\$ 556,186.50			\$ 5,387.28
						\$ 561,573.78

Conclusion

We find that Kerman's calculation methodology is inconsistent with the methodology that the Commission used in D.16-02-022 and D.16-06-053 for interim rate relief. Based on the calculations provided above in Table 2, CD concludes that Kerman must refund \$561,573.83 to the CHCF-A Fund. CD recommends that Kerman pay this amount to the Commission within 45 days from the effective date of this Resolution in compliance with D.16-02-022 and D.16-06-053.

Comments

Public Utilities Code section 311(g)(1) requires that a draft resolution be served on all parties, and be subject to a public review and comment period of 30 days or more, prior to a vote of the Commission on the resolution. A draft of today's resolution was distributed for comment to the Kerman Telephone Company, and the service lists for R.11-11-007 and A.11-12-011 on October 7, 2016.

Findings

1. On January 29, 2016, Kerman Telephone Company (Kerman) filed a Motion for Interim Rate Relief in its General Rate Case Application (11-12-011) proceeding.
2. On February 26, 2016, the Commission issued Decision (D.)16-02-022, granting Kerman's Motion for Interim Rate Relief and adopted \$1,112,373 in interim rates for Kerman's Test Year 2016.
3. On June 23, 2016, the Commission adopted permanent rates for Kerman's Test Year 2016 in D.16-06-053 and ordered Kerman to file a Tier 3 Advice Letter (AL) to true-up the difference between interim rates and Test Year 2016 adopted rates.
4. On July 29, 2016, Kerman filed Tier 3 AL 407, as directed by D.16-02-022 and D.16-06-053 to true-up rates.
5. Kerman proposes to refund \$13,935 to the CHCF-A based on its calculations.
6. Kerman's true-up methodology excluded certain revenue components, but isolated California High Cost Fund-A (CHCF-A) support and an Access Recovery Charge (ARC) offset in its calculation, which is inconsistent with D.16-02-022.
7. Kerman's interim rate relief true-up calculation methodology is inconsistent with the methodology used in D.16-02-022 and D.16-06-053 for interim rate relief.
8. Although the ARC should not be included in the true-up calculation, Kerman may seek a disposition regarding the merits of ARC recovery in a separate AL filing.
9. The Commission's interim rate relief true-up compares Test Year 2016 operating revenues adopted in D.16-06-053 (\$8,795,090) and test year 2008 operating revenues (\$8,801,394) adopted in Resolution T-17081.
10. Because there is no positive revenue requirement differential between the Test Year 2008 and 2016 revenue requirements, the full amount of interim rate relief is subject to refund by to the CHCF-A fund.
11. Based on the Communications Division's calculations, Kerman owes \$561,573.78 to the CHCF-A. This amount includes principal plus interest at the 3-month commercial paper for financial institutions in compliance with D.16-02-022 and D.16-06-053.
12. D.16-06-053 Ordering Paragraph 2 orders Kerman to make a one-time refund to the CHCF-A with interest using the 3-month commercial paper rate from the date that CD made interim rate relief payments to Kerman.

13. Communications Division recommends that Kerman pay a true-up payment of \$561,573.78 within 45 days of the effective date of this Resolution in compliance with D.16-02-022 and D.16-06-053.

THEREFORE, IT IS ORDERED that:

1. In compliance with Decision 16-02-022, Ordering Paragraph 4, and Decision 16-06-053, Ordering Paragraphs 2 and 12, Kerman Telephone Company shall make a one-time lump sum payment to the California High Cost Fund-A of \$561,573.78 within 45 days of the effective date of this Resolution.

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on December 15, 2016, the following Commissioners voting favorable thereon:

TIMOTHY J. SULLIVAN
Executive Director

APPENDIX A

Appendix A

Attachment 1							
Kerman Telephone Company							
Interim Rate Relief True up Calculation							
Advice Letter 407							
	Payment Date		Payments (a)	True Up Amounts (b)	90 Day Commercial Paper Rate (c)	Days From Aug. refund (d)	Interest (e)
1 Interim Relief Granted	Annual		\$ 1,112,373				
	Monthly		\$ 92,698				
January Payment **			0				
February Payment	3/31/2016		\$ 92,698		0.54%	122	\$ 2,035.64
March Payment	4/27/2016		\$ 92,698		0.55%	96	\$ 1,631.48
April Payment	6/23/2016		\$ 92,698		0.55%	39	\$ 662.79
May Payment	6/28/2016		\$ 92,698		0.57%	34	\$ 598.83
June Payment	7/8/2016		\$ 92,698		0.55%	23	\$ 390.88
July Payment	7/30/2016		\$ 92,698		0.55%	-	\$ -
	8/1/2016						
2 Total Payments				\$ 556,187			\$ 5,319.61
3 CHCF-A increase granted (annual):							
Kerman Test Year 2016 D.16-06-053			\$ 4,177,111				
CHCF-A CY 2016 Resolution T-17505			\$ 3,539,724				
			\$ 637,387				
4 Local Service rate increases granted (annual)			\$ 289,795				
5 Total GRC change (annual) Line 3 + Line 4)			\$ 927,182				
	Monthly		\$ 77,265				
January Amount **			0				
February Amount	2/15/2016		\$ 77,265		0.54%	165	\$ 2,294.78
March Amount	3/15/2016		\$ 77,265		0.55%	135	\$ 1,912.31
April Amount	4/15/2016		\$ 77,265		0.55%	105	\$ 1,487.35
May Amount	5/15/2016		\$ 77,265		0.57%	75	\$ 1,101.03
June Amount	6/15/2016		\$ 77,265		0.55%	45	\$ 637.44
July Amount	7/15/2016		\$ 77,265		0.55%	15	\$ 212.48
	8/1/2016						
6 Total				\$ 463,591			\$ 7,645.39
7 True up amount (Column b => line 2 - line 6)				\$ 92,595			
8 Interest Rate adjustment (Column e => line 2 - line 6)				\$ (2,326)			
9 ARC true up from Company forbearance of amount > \$30				\$ (76,335)			
10 Net True up amount Due CPUC				\$ 13,935			
** No payments were made in January as interim rate relief was not granted/effective until February.							

End of Appendix A

APPENDIX B

Appendix B

Attachment 2 – CD’s explanation of Kerman’s calculation

- Kerman’s calculation in AL 407 (shown in Attachment 1) begins by summing interim relief (Line 2; \$556,187);
 - The calculation then sums the difference between 2016 CHCF-A support adopted in GRC D.16-06-053, and support originally adopted for calendar year 2016 in Resolution T-17505 (Line 3; \$637,387);
 - It then adds basic service rate increases adopted in D.16-06-053 (Line 4; \$289,795);
 - Lines 3 and 4 sum to \$927,182 (Line 5, Total GRC Change);
 - This results in a February through July net differential (Line 6, \$463,591 compared to interim relief.
- Line 7 shows the monthly differential between interim relief and the product of Lines 3 through 6 (\$92,595, equal to \$556,187 minus \$463,591).
 - Line 8 represents the net interest rate adjustment (\$2,236) resulting from the difference between the six interim relief payments (Line 2) and the Total GRC change total (Line 6) for February through July. The interest rate is calculated at the 3-month commercial paper rate issued by financial institutions to August 1, 2016.
 - Line 9 represents a \$76,335 adjustment to recover Federal Communications Commission (FCC) Access Recovery Charge (ARC) funds. The FCC’s Connect America Fund³ adopted the ARC as a transitional recovery mechanism to mitigate the effects of reduced intercarrier revenues. The ARC allows the recovery, from customers, of a portion of the costs of providing access to its local network. The maximum allowable ARC charge is set by the FCC, but the small Incumbent Local Exchange Carriers are free to charge, less, or nothing at all.⁴ To impose ARC on customers, Kerman’s residential rate, including all surcharges and fees, cannot exceed \$30.00 per month. Kerman requests this recovery to make up for foregone revenue due to the \$30.00 basic service charge ceiling. Since Kerman cannot—per FCC rules—reduce ARC charges until January 1, 2017, effective July 1, 2017, Kerman states that it is foregoing ARC revenue until July 1, 2017, that it cannot charge customers in the interim to be compliant with the \$30.00 ceiling.
- Subtracting the Line 8 interest rate adjustment (\$2,236) and the Line 9 ARC recovery adjustment (\$76,335) from Line 7 (\$92,595) equals a proposed net true-up amount of \$13,935, as shown in Line 10.

³ Connect America Fund FCC 11-161, paragraph 36, page 15

⁴ Title 47 Code of Federal Regulations Section 51.917